

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Northville District Library</u>	County <u>Wayne/Oakland</u>
Audit Date <u>November 30, 2005</u>	Opinion Date <u>January 11, 2006</u>	Date Accountant Report Submitted To State: <u>May 30, 2006</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature 			

Northville District Library

**Financial Report
with Supplemental Information
November 30, 2005**

Northville District Library

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Independent Auditor's Report

To the Members of the Board
Northville District Library
Northville, Michigan

We have audited the accompanying financial statements of each major fund and the government-wide activities of Northville District Library as of and for the year ended November 30, 2005, as listed in the table of contents. These financial statements are the responsibility of Northville District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the government-wide activities of Northville District Library as of November 30, 2005 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

January 11, 2006

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Northville District Library

Management's Discussion and Analysis

The following discussion and analysis of the financial performance of the Northville District Library (the "Library") provides an overview of the Library's financial activities for the fiscal year ended November 30, 2005.

Financial Highlights

The following represents the most significant financial highlights for the year ended November 30, 2005:

- The financial report for the year ended November 30, 2005 reflects the second year of complete implementation of Governmental Accounting Standards Board Statement Number 34. That Statement significantly changed the content and format of governmental financial reporting. Accordingly, these statements present both entity-wide financial reporting in addition to reporting financial information at the fund level. A reconciliation of the net change in fund balance to the change in net assets is provided on page 20.
- Overall, revenues and expenditures were consistent with the prior year. Noteworthy items include the following:
 1. Tax revenue was very close to the budgeted amount. Interest rates went up faster than the Finance Committee anticipated when the budget was created. A change in video policy resulted in more library fines than planned. Because of late disbursement of the Universal Service Fund money, two payments were received in one year. Friends donations are not budgeted and what is not spent remains in the fund balance.
 2. The Library is in contract negotiations and, with no settlement in the fiscal year, the funds allocated for salary and fringe benefits were not paid. All or part of the funds may be paid retroactively in the next fiscal year. Actual medical insurance premiums were up about 19 percent. A change in health insurance coverage by a retiree resulted in a substantial reduction in the monthly payment.
 3. Budgets for building maintenance and technology were purposely underspent in order to save funds for future expenses in that category. The Library changed the services purchased from The Library Network for a savings of \$3,000.
 4. The Library has joined the MERS Retiree Health Funding Vehicle and plans to send a portion of the fund balance to that fund.
 5. Legal fees were budgeted in anticipation of union contract negotiations sessions that did not occur this year.

Northville District Library

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers and users have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' and users' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's funds.

The Library as a Whole

The following table shows, in a condensed format, the current year's net assets compared to the prior year:

	2005	2004	Changes from Prior Year	
			Dollars	Percent
Assets				
Current assets	\$ 736,860	\$ 607,656	\$ 129,204	21.3
Capital assets	<u>5,653,383</u>	<u>5,749,309</u>	<u>(95,926)</u>	(1.7)
Total assets	6,390,243	6,356,965	33,278	0.5
Liabilities				
Current liabilities	454,483	417,364	37,119	8.9
Noncurrent liabilities	<u>3,275,000</u>	<u>3,525,000</u>	<u>(250,000)</u>	(7.1)
Total liabilities	<u>3,729,483</u>	<u>3,942,364</u>	<u>(212,881)</u>	(5.4)
Net Assets				
Invested in capital assets - Net of related debt	2,128,383	1,994,309	134,074	6.7
Restricted - Debt service	73,844	72,430	1,414	2.0
Unrestricted	<u>458,533</u>	<u>347,862</u>	<u>110,671</u>	31.8
Total net assets	<u>\$ 2,660,760</u>	<u>\$ 2,414,601</u>	<u>\$ 246,159</u>	10.2

The above increase in net assets is primarily due to the Library preparing for capital projects which are a part of the long-term planning as well as preparing for the additional costs that will be required by implementing Governmental Accounting Standards Board Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*.

Northville District Library

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year in comparison with the prior year:

	2005	2004	Changes from Prior Year	
			Dollars	Percent
Revenue				
Property taxes	\$ 2,221,256	\$ 2,019,829	\$ 201,427	10.0
State aid	26,986	24,361	2,625	10.8
Other income	128,651	124,860	3,791	3.0
Total revenue	2,376,893	2,169,050	207,843	9.6
Expenditures				
Wages and benefits	1,124,582	1,099,015	25,567	2.3
Facilities	189,073	161,340	27,733	17.2
MERS health care contribution	115,518	-	115,518	-
Depreciation	349,100	310,984	38,116	12.3
Debt service	164,725	175,825	(11,100)	(6.3)
Other	187,736	165,503	22,233	13.4
Total expenditures	2,130,734	1,912,667	218,067	11.4
Excess of Revenue Over Expenditures	\$ 246,159	\$ 256,383	\$ (10,224)	(4.0)

The increase in revenue primarily reflects the overall increase in the taxable value of the Northville area. Other income increased from the prior year due to improved fixed income investment earnings.

The increase in expenditures is due to primarily to the pre-funding of postemployment health care costs as described in Note 7.

The Library's Funds

The Library maintains three funds: the General Fund, the Reserve Fund, and the Debt Service Fund. All three funds are considered major funds. The fund financial statements provide detailed information about the funds, not the Library as a whole. The Library board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as debt service payments.

General Fund Budgetary Highlights

The General Fund accounts for all programming, maintenance, capital investments, and administrative functions of the Library. The budget is monitored closely and amended quarterly if needed.

The General Fund pays for all of the Library's services. The most significant are program activities.

Northville District Library

Management's Discussion and Analysis (Continued)

The Debt Service Fund did not have a budget adopted by the Library board for the year ended November 30, 2005. This type of fund is not required, by State of Michigan law, to have a budget adopted.

Capital Asset and Debt Administration

At the end of fiscal year 2005, the Library had approximately \$5,600,000 (net of depreciation) invested in a broad range of capital assets, including books, buildings, technology equipment, and furniture.

The Library has a Debt Service Fund. This fund allows for the collection of a dedicated millage approved by taxpayers for debt service of the 1998 Refunding Bonds and the related debt service payments.

Economic Factors and Next Year's Budgets and Rates

The value of property within the Northville area has grown beyond the rate of inflation. This is due primarily to new commercial and residential development projects. With the close of fiscal year 2005, funds of \$244,000 have been designated for capital and technology projects. The evaluation capital improvements and technology investments will continue to be a focus in the future.

Contacting the Library's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Northville District Library's office at 212 West Cady Street, Northville, Michigan 48167, or via the Library's Web site at www.northville.lib.mi.us.

Northville District Library

Governmental Funds Balance Sheet/Statement of Net Assets November 30, 2005

	Modified Accrual Basis					Full Accrual Basis
	General Fund - Operating Fund	Special Revenue Fund - Reserve Fund	Debt Service Fund	Total	Adjustments (Note 9)	Government-wide Statement of Net Assets
Assets						
Cash and cash equivalents (Note 2)	\$ 299,914	\$ 363,102	\$ 73,844	\$ 736,860	\$ -	\$ 736,860
Due from other funds	-	163,006	-	163,006	(163,006)	-
Capital assets - Net of accumulated depreciation (Note 3)	-	-	-	-	5,653,383	5,653,383
Total assets	<u>\$ 299,914</u>	<u>\$ 526,108</u>	<u>\$ 73,844</u>	<u>\$ 899,866</u>	5,490,377	6,390,243
Liabilities						
Accounts payable	\$ 72,671	\$ -	\$ -	\$ 72,671	131,812	204,483
Due to other funds	163,006	-	-	163,006	(163,006)	-
Long-term debt (Note 4):						
Due within one year	-	-	-	-	250,000	250,000
Due in more than one year	-	-	-	-	3,275,000	3,275,000
Total liabilities	235,677	-	-	235,677	3,493,806	3,729,483
Net Assets						
Fund balances:						
Reserved for debt service	-	-	73,844	73,844	(73,844)	
Designated for facilities and capital projects	-	222,128	-	222,128	(222,128)	
Designated for technology projects	-	22,328	-	22,328	(22,328)	
Designated for retiree health care contributions and other anticipated expenditures	-	281,652	-	281,652	(281,652)	
Designated for contingencies	64,237	-	-	64,237	(64,237)	
Undesignated	-	-	-	-	-	
Total fund balances	<u>64,237</u>	<u>526,108</u>	<u>73,844</u>	<u>664,189</u>	(664,189)	
Total liabilities and net assets	<u>\$ 299,914</u>	<u>\$ 526,108</u>	<u>\$ 73,844</u>	<u>\$ 899,866</u>		
Invested in capital assets - Net of related debt					2,128,383	2,128,383
Restricted - Debt service					73,844	73,844
Unrestricted					458,533	458,533
Total net assets					\$ 2,660,760	\$ 2,660,760

Northville District Library

Statement of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended November 30, 2005

	Modified Accrual Basis				Full Accrual Basis	
	General Fund - Operating Fund	Special Revenue Fund - Reserve Fund	Debt Service Fund	Total	Adjustments (Note 9)	Government- wide Statement of Activities
Revenues						
Property taxes	\$ 1,829,170	\$ -	\$ 392,086	\$ 2,221,256	\$ -	\$ 2,221,256
Penal fines	31,750	-	-	31,750	-	31,750
Rentals and fees - Library user services	12,989	-	-	12,989	-	12,989
Overdue fines	37,114	-	-	37,114	-	37,114
State aid:						
Direct local	23,911	-	-	23,911	-	23,911
Single business tax	3,075	-	-	3,075	-	3,075
Donations	15,043	-	-	15,043	-	15,043
Interest earnings	17,936	9,766	4,053	31,755	-	31,755
Total revenues	1,970,988	9,766	396,139	2,376,893	-	2,376,893
Expenditures						
Wages and salaries	812,264	-	-	812,264	10,819	823,083
Fringe benefits and payroll taxes	301,499	-	-	301,499	-	301,499
Postage	1,204	-	-	1,204	-	1,204
Operating supplies	18,455	-	-	18,455	-	18,455
Telephone	5,111	-	-	5,111	-	5,111
Copier expense	7,455	-	-	7,455	-	7,455
Insurance	22,716	-	-	22,716	-	22,716
Utilities and janitorial	120,658	-	-	120,658	-	120,658
Repairs and maintenance	68,415	-	-	68,415	-	68,415
Education and training	7,881	-	-	7,881	-	7,881
Capital outlay:						
Books	223,935	-	-	223,935	(223,935)	-
Equipment	20,346	-	-	20,346	(20,346)	-
Other	13,842	-	-	13,842	(13,842)	-
Special programs	8,818	-	-	8,818	-	8,818
Legal	2,293	-	-	2,293	-	2,293
Audit fees	5,860	-	-	5,860	-	5,860
Contractual services	11,030	-	-	11,030	-	11,030
Leases of equipment	1,464	-	-	1,464	-	1,464
Advertising and public relations	21,304	-	-	21,304	-	21,304
Auto circulation system services	19,854	-	-	19,854	-	19,854
Technology	39,367	-	-	39,367	-	39,367
Other	9,974	-	-	9,974	4,950	14,924
MERS health care contribution	-	115,518	-	115,518	-	115,518
Depreciation	-	-	-	-	349,100	349,100
Debt service	-	-	394,725	394,725	(230,000)	164,725
Total expenditures	1,743,745	115,518	394,725	2,253,988	(123,254)	2,130,734
Excess of Revenues Over (Under) Expenditures	227,243	(105,752)	1,414	122,905	123,254	246,159
Other Financing Sources (Uses) - Transfer in (out) General Fund residual	(163,006)	163,006	-	-	-	-
Net Change in Fund Balances	64,237	57,254	1,414	122,905	123,254	246,159
Fund Balances/Net Assets - December 1, 2004	-	468,854	72,430	541,284	1,873,317	2,414,601
Fund Balances/Net Assets - November 30, 2005	\$ 64,237	\$ 526,108	\$ 73,844	\$ 664,189	\$ 1,996,571	\$ 2,660,760

Northville District Library

Notes to Financial Statements November 30, 2005

Note I - Summary of Significant Accounting Policies

The accounting policies of Northville District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Northville District Library serves the City of Northville and Northville Township. The Library is governed by a seven-member board. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental activities of the Library. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

In addition to presenting information for the General Fund, the basic financial statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Northville District Library

Notes to Financial Statements November 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

The Library reports the following major governmental funds:

General Fund - Operating Fund - The Operating Fund contains the records of the ordinary activities of the Library that are not accounted for in another fund. Operating Fund activities are financed by revenue from general property taxes, state aid, and other sources.

Special Revenue Fund - Reserve Fund - The Reserve Fund is used to account for assets in excess of current operating needs.

Debt Service Fund - The Debt Service Fund is used to account for the annual payment of principal, interest, and expenses in connection with the building debt.

Fund balance has been reserved and net assets have been restricted for debt service in an amount equal to collections of debt millage in excess of bond payments to date.

Northville District Library

Notes to Financial Statements November 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Property Taxes - Property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due without penalty during the period December 1 through February 28. Taxes are considered delinquent as of March 1, at which time they are added to the county tax rolls with penalty.

The delinquent real property taxes of the Library are purchased by Wayne and Oakland Counties. The counties sell tax notes, the proceeds of which are used to pay the Library for these property taxes. Oakland County remitted its share of the purchased delinquent real property taxes in August 2005. Wayne County remitted its share of the purchased delinquent real property taxes in August 2005. Both Wayne and Oakland County's shares of delinquent real property taxes have been recorded as revenue in the current year.

The 2004 taxable valuation of the Library district totaled \$1.9 billion, on which ad valorem taxes levied consisted of 0.9664 mills for the Library's operating purposes, and 0.2080 mills for debt service. The ad valorem taxes levied raised \$1.8 million for operations and \$392,000 for debt service. These amounts are recognized in the respective Operating and Debt Service Funds financial statements as tax revenue.

Capital Assets - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Library books, CDs, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$500 capitalization threshold.

Northville District Library

Notes to Financial Statements November 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	50 years
Furniture and equipment	7-15 years
Collections	10 years

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

Long-term Obligations - In the government-wide financial statements, long-term debt is reported as a liability in the governmental activities statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Northville District Library

Notes to Financial Statements November 30, 2005

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Library's investment policy permits investment in all investment vehicles allowable by state law.

The Library's investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Library will not be able to recover the value of its investments. At year end, the Library had \$92,407 of bank deposits, all of which were covered by FDIC insurance. The Library's policy for custodial credit risk limits bank options to those approved by the board of trustees.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Bank investment pools	\$ 644,157	21 days

Northville District Library

Notes to Financial Statements November 30, 2005

Note 2 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library's policy limits dealer options to those approved by the board of trustees. All dealers must be affiliated with a bank or shall be classified as reporting dealers in compliance with the uniform net capital rule. Dealers must also supply audited financial statements, state registration, and certification of compliance with the Library's investment policy. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 644,157	A-1	S&P

Note 3 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

	Balance December 1, 2004	Additions	Disposals and Adjustments	Balance November 30, 2005
Governmental Activities				
Capital assets being depreciated:				
Buildings and improvements	\$ 4,639,524	\$ -	\$ -	\$ 4,639,524
Furniture and equipment	565,967	20,346	(9,899)	576,414
Collections	3,346,277	237,777	-	3,584,054
Subtotal	8,551,768	258,123	(9,899)	8,799,992
Accumulated depreciation:				
Buildings and improvements	835,114	92,790	-	927,904
Furniture and equipment	220,239	56,234	(4,950)	271,523
Collections	1,747,106	200,076	-	1,947,182
Subtotal	2,802,459	349,100	(4,950)	3,146,609
Net capital assets being depreciated	\$ 5,749,309	\$ (90,977)	\$ (4,949)	\$ 5,653,383

Northville District Library

Notes to Financial Statements November 30, 2005

Note 4 - Long-term Debt

Outstanding Debt

Long-term debt activity of the Library's governmental activities was as follows:

	Balance December 1, 2004	Reductions	Balance November 30, 2005	Due Within One Year
1998 Refunding Bonds, general obligation bonds with interest ranging from 4.00 percent to 6.00 percent, maturing through April 1, 2015	\$ 3,755,000	\$ 230,000	\$ 3,525,000	\$ 250,000

Defeased Debt

During 1998, the Library defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At November 30, 2005, \$3,415,000 of bonds outstanding are considered defeased.

Debt Service Requirements

The annual requirements of governmental fund resources to service the general obligation bonds as of November 30, 2005 are as follows:

Years Ending November 30	Principal	Interest	Total
2006	\$ 250,000	\$ 150,000	\$ 400,000
2007	275,000	134,250	409,250
2008	300,000	117,000	417,000
2009	325,000	101,500	426,500
2010	350,000	88,000	438,000
2011-2015	2,025,000	209,300	2,234,300
Total	\$ 3,525,000	\$ 800,050	\$ 4,325,050

Northville District Library

Notes to Financial Statements November 30, 2005

Note 5 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared and adopted by the Library board and subsequent amendments are approved by the Library board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at November 30, 2005 has not been calculated. There were no budget amendments during the current year. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a revenue and expense line item basis, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations. A comparison of actual results of operations to the budget as adopted by the Library board is included in the budgetary comparison schedules - General Fund - Operating Fund and Special Revenue Fund - Reserve Fund in the required supplemental information section.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Library has the following significant expenditure budget variances:

	Budget	Actual
General Fund:		
Friends donation expense	\$ -	\$ 13,842
Transfer out	70,850	163,006
Special Revenue Fund - MERS health care contribution	-	115,518

Based on the uncertain nature of donations, the Library does not budget for donation revenue and, as a result, it does not budget for related expenditures. Due to the favorable variances in various line items in the current year, the Library was able to transfer more to the Reserve Fund than budgeted. During the year, the Library transferred assets to a postretiree health care trust held by the Municipal Employees' Retirement System of Michigan (MERS). This action was not budgeted for as the decision was made during the year.

Northville District Library

Notes to Financial Statements November 30, 2005

Note 6 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for medical benefit claims, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority (state pool member) (the "Authority") for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool and the Authority's state pool programs operate as common risk-sharing management programs for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. For the state pool program, a portion of the excess insurance coverage is underwritten by the Authority itself.

Note 7 - Postemployment Benefits

The Library provides health care benefits to all regular employees upon retirement in accordance with personnel policy. Currently, four retirees are eligible; however, only two employees participate. The Library includes pre-Medicare retirees and their dependents in its insured health care plan, with the participating retiree's contribution rate varying based on a vesting schedule from 20 percent to 100 percent. The Library reimburses Medicare insurance premiums for retirees eligible for Medicare using the same vesting schedule. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to \$10,582. During the year, the Library made an initial pre-funding contribution of postemployment health care to a trust held by the Municipal Employees' Retirement System of Michigan (MERS) of \$115,518.

Note 7 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the Library’s government-wide financial statements to recognize the cost of providing retiree health care coverage, and create a liability if not actuarially funded, over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending November 30, 2010. The most recent estimate by management of the potential effect of this pronouncement on the Library, which was done in 2002, indicated that the postemployment benefit liability would be underfunded by approximately \$2,800,000 at that time.

Note 8 - Defined Benefit Pension Plan

Plan Description

The Library participates in the Municipal Employees’ Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all regular employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by resolution of the Library board.

Northville District Library

Notes to Financial Statements November 30, 2005

Note 8 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the year ended November 30, 2005, the Library's annual pension cost of approximately \$84,000 for the plan was equal to the Library's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.9 percent per year, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year trend information for the years ended November 30 is as follows:

	2003	2004	2005
Annual pension cost (APC)	\$ 81,000	\$ 74,000	\$ 84,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Three-year trend information for the actuarial valuation as of December 31 is as follows:

	2002	2003	2004
Actuarial value of assets	\$ 702,542	\$ 831,409	\$ 945,631
Actuarial accrued liability (AAL) (entry age)	\$ 975,218	\$ 1,144,316	\$ 1,293,536
Unfunded AAL (UAAL)	\$ 272,676	\$ 312,907	\$ 347,905
Funded ratio	72%	73%	73%
Covered payroll	\$ 473,280	\$ 541,672	\$ 560,270
UAAL as a percentage of covered payroll	58%	58%	62%

Northville District Library

Notes to Financial Statements November 30, 2005

Note 9 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's funds differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the fund balance sheet and statement of revenue, expenditures, and changes in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified accrual basis	\$ 664,189
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources and are not reported in the funds	5,653,383
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Long-term liabilities are not due and payable in the current period and are not reported in the funds	(3,525,000)
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Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds	(37,550)
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Compensated absences are not included as a liability in the funds	<u>(94,262)</u>
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Total Net Assets - Full accrual basis	<u><u>\$ 2,660,760</u></u>
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Northville District Library

Notes to Financial Statements November 30, 2005

Note 9 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements (Continued)

Net Change in Fund Balances - Modified accrual basis	\$ 122,905
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	258,123
Depreciation	(349,100)

Losses resulting from disposals of capital assets are reported in the statement of activities, but not in the fund statements	(4,950)
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Increase in accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(10,819)
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Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>230,000</u>
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Change in Net Assets - Full accrual basis	<u>\$ 246,159</u>
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Northville District Library

**Notes to Financial Statements
November 30, 2005**

Note 10 - Community Foundation Endowment Fund

The Library participates in an endowment program sponsored by the Community Foundation for Southeastern Michigan (an unrelated nonprofit foundation). The Library has established a permanent endowment fund held by the Community Foundation for Southeastern Michigan. The purpose of the endowment fund is to provide unrestricted operating support for the Library from the endowment earnings. Funds are donated by outside donors for the benefit of the organization and are held and managed by the Community Foundation for Southeastern Michigan. Earnings are available for distribution to the organization for operations at the discretion of the Foundation; therefore, interest and principal balances are not reflected in the financial statements of the Library.

Required Supplemental Information

Northville District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Operating Fund Year Ended November 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues				
Property taxes:				
Township support	\$ 1,534,600	\$ 1,534,600	\$ 1,542,117	\$ 7,517
City support	297,800	297,800	288,263	(9,537)
Tax refunds	(7,000)	(7,000)	(1,210)	5,790
State, local, and other:				
Direct local	21,000	21,000	23,911	2,911
Penal fines	30,000	30,000	31,750	1,750
Universal Service Fund	-	-	3,881	3,881
Single business tax	-	-	3,075	3,075
Interest earnings	6,000	6,000	17,936	11,936
Library fines	25,000	25,000	37,114	12,114
Rentals:				
Library book rentals	900	900	526	(374)
Room rental	400	400	600	200
Printing services:				
Copier revenue	4,000	4,000	3,845	(155)
Printer revenue	4,000	4,000	4,137	137
Donations:				
Private donations	-	-	4,313	4,313
Friends donations	-	-	10,155	10,155
Gift books	-	-	575	575
Total revenues	1,916,700	1,916,700	1,970,988	54,288
Expenditures				
Personnel:				
Wages and salaries	836,000	836,000	812,264	23,736
Fringe benefits	342,000	342,000	301,499	40,501
Education and training	11,000	11,000	7,881	3,119
Workers' compensation	3,000	3,000	1,618	1,382
Payroll services	4,000	4,000	4,803	(803)
Membership fees	3,000	3,000	2,038	962

Northville District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Operating Fund (Continued) Year Ended November 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Expenditures (Continued)				
Building and utilities:				
Building maintenance	\$ 84,900	\$ 84,900	\$ 68,415	\$ 16,485
Liability and property insurance	21,000	21,000	22,716	(1,716)
Electric	56,000	56,000	57,081	(1,081)
Housekeeping	38,500	38,500	39,170	(670)
Gas	18,000	18,000	14,966	3,034
Contractual services	6,700	6,700	6,227	473
Telephone	5,500	5,500	5,111	389
Housekeeping supplies	5,100	5,100	4,851	249
Water	6,000	6,000	4,590	1,410
Acquisitions:				
Books and subscriptions	205,000	205,000	222,058	(17,058)
Operating supplies	22,000	22,000	18,455	3,545
Electronic products	25,000	25,000	20,346	4,654
Book rental purchases	1,500	1,500	1,454	46
Support services:				
Technology	52,800	52,800	29,672	23,128
Auto circular system service	20,000	20,000	19,854	146
Telecommunications	11,000	11,000	9,695	1,305
The Library Network/Baker Taylor fees	9,450	9,450	6,318	3,132
Special programs	9,000	9,000	8,818	182
Copier expense	10,000	10,000	7,455	2,545
Postage	3,000	3,000	1,204	1,796
Other:				
Legal services	6,000	6,000	2,293	3,707
Leased equipment	1,500	1,500	1,464	36
Public relations	22,000	22,000	21,172	828
Auditing services	6,200	6,200	5,860	340
Advertising	700	700	132	568
Donation expenses:				
Book donation expense	-	-	423	(423)
Friends donation expense	-	-	13,842	(13,842)
Total expenditures	1,845,850	1,845,850	1,743,745	102,105
Transfer out	70,850	70,850	163,006	(92,156)
Net Change in Fund Balance	\$ -	\$ -	\$ 64,237	\$ 64,237

Northville District Library

Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Fund - Reserve Fund Year Ended November 30, 2005

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues - Interest earnings	\$ -	\$ -	\$ 9,766	\$ 9,766
Expenses - MERS healthcare contribution	-	-	115,518	(115,518)
Residual Equity Transfer In	<u>70,850</u>	<u>70,850</u>	<u>163,006</u>	<u>92,156</u>
Net Change in Fund Balance	<u><u>\$ 70,850</u></u>	<u><u>\$ 70,850</u></u>	<u><u>\$ 57,254</u></u>	<u><u>\$ (13,596)</u></u>



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January 11, 2006

To the Library Board Members
Northville District Library
212 West Cady Street
Northville, MI 48167

Dear Board Members:

We have recently completed the audit of the financial statements for the Northville District Library for the year ended November 30, 2005. In addition to the audit report, we offer the following comments and recommendations for your consideration:

Fund Balances

During the current year, the Library transferred approximately \$177,000 to the Reserve Fund from the Operating Fund, which increased the Reserve Fund fund balance to approximately \$540,000. This level of fund balance represents 31 percent of the annual expenditures of the Operating Fund. While this is a great accomplishment toward the financial health of the Library, we encourage the Library to continue its long-range planning efforts in order to determine the adequacy of this level of fund balance reserve.

As we have discussed previously, the Library's operating millage is capped and also is subject to annual reductions as a result of the Headlee Amendment. Property taxes account for 93 percent of the Library's operating revenue. The Library will continue to receive property taxes that increase by more than inflation as long as the Township experiences growth. However, once the Township's growth stabilizes, the Library's property taxes will not be able to increase by more than inflation. Given all of the increases in operating costs, including large increases in health care and pension costs, the Library will be challenged to maintain a healthy fund balance.

Postemployment Benefits

As a reminder, there are two new accounting pronouncements that were issued by the Governmental Accounting Standards Board. Both standards relate to accounting and disclosures related to postemployment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to health care promises to retirees, much in the same way that pensions are handled. Starting in 2009, the Library will be required to periodically measure its retiree health care liability through actuarial valuations or by using an alternative method available to employers with 100 or fewer employees. These valuations will also compute an "annual required contribution." The annual required contribution is the amount deemed necessary to fund the benefit over a period of 30 years or less.



A worldwide association of independent accounting firms

January 11, 2006

In preparation for these new pronouncements, during the year the Library made an initial contribution toward pre-funding future postemployment health care costs by transferring approximately \$115,000 to a health care trust offered by the Michigan Employees' Retirement System of Michigan (MERS). We believe this is prudent action taken by the Library and would encourage other pre-funding transfers to be made as the Library is able. This will reduce the "catch-up" portion of the annual required contributions once the new accounting pronouncement is implemented.

Technology

Many local libraries have begun implementing the use of Radio Frequency Identification (RFID) as a method of keeping track of resources. It is our understanding that Northville District Library is also planning to implement this technology in the near future. Discussion with library staff has shown that, through their investigation of RFID to date, they are aware of its pitfalls. These include compatibility of RFID with the library's current technology, failing accuracy of the RFID technology if not used in a proper operating environment, and citizens' concerns related to violation of privacy. Library management has indicated they will continue to review the RFID technology as it matures. Our technology group has extensive experience in implementing RFID technology in libraries and would be happy to discuss these issues with Northville District Library staff in greater detail.

We would again like to thank Julie Herrin and Judith Williams for the courtesy and cooperation extended to us during the audit. If you have any questions or require assistance in the implementation of our recommendations, please feel free to contact us.

Very truly yours,

Plante & Moran, PLLC



Beth A. Bialy



Christopher Jones